



## **Office of the City Auditor**

### **City of Scottsdale Purchasing Card Report No. 9600.B**

**April 18, 2000**

An audit of expenditures under the Purchasing Card Program found that most cardholders are in compliance with requirements. However, citywide guidelines and the Purchasing Card Guide need to be updated to reflect actual practice. As well, additional training needs to be implemented to reinforce appropriate use.

#### **SCOTTSDALE CITY COUNCIL**

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Councilwoman Cynthia Lukas  
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April 18, 2000

To the Most Honorable Sam Kathryn Campana, Mayor  
and the Members of the Scottsdale City Council

Transmitted herewith is the report of our evaluation of internal controls related to City of Scottsdale Purchasing Card, Report No. 9600B. This work represents a periodic review of the Purchasing Card Program, which is an approved project on the City Auditor's 1998/99 Audit Plan.

We did not find any intentional misuse of the City Purchasing Card during the review period and most cardholders were in compliance with City Guidelines. As a result of our work, we concluded that the City has appropriate controls in place to safeguard City assets against misuse. However, several issues related to inconsistencies within established guidelines, the need for expanded training, and more emphasis on adherence to established guidelines were noted during our review. The Financial Services General Manager and Purchasing Director reviewed this report and submitted a written response that can be found in Appendix B.

During our audit, an issue needing further work came to our attention. We could not determine if travel expenses, charged on Purchasing Cards, had been properly accounted for. This issue is addressed in the report with a recommendation that further work regarding travel and expense policies be initiated.

If you need additional information or have any questions, please contact me at 480-312-7867.

Respectfully submitted,

A handwritten signature in black ink that reads "Cheryl Barcala".

Cheryl Barcala, CIA, CPA, CFE, CGFM, CISA  
City Auditor

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Report No. 9600.B  
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**City of Scottsdale Purchasing Card  
Action Plan (No. 9600.B)**

No.	Management Response		Implementation Status		RECOMMENDATIONS
	AGREE	DISAGREE	UNDERWAY	PLANNED	
1	X			X	The Purchasing Director should:  Initiate revisions to the citywide Administrative Guidelines as they relate to or are impacted by the Purchasing Card.
2	X			X	Reconsider restrictions on Purchasing Card usage.
3	X			X	Develop an approved product list for hazardous materials.
4	X			X	Expand the use of the Internet procedures to determine reputable vendors with secure sites and provide appropriate training for cardholders.
5	X			X	Establish procedures for procuring food catering services and rental of vehicles.
6	X			X	Clarify the intent of the Procurement Code and require the development and periodic updating of department specific procedures.
7	X			X	Develop and require supervisors to attend a training program outlining supervisor responsibility and require all cardholders to receive basic training.
8	X			X	Require supervisors to follow up and document steps to reinforce compliance.
9	X		X		Implement a procedure to periodically verify that Purchasing Cards issued to terminated employees were canceled.

## **EXECUTIVE SUMMARY**

In 1997, the City implemented a citywide Purchasing Card Program after a successful two-year pilot program. Our Office audited compliance during the pilot. The City Council has approved periodic audits to ensure continued compliance.

The objective of our audit is to determine if City assets are being used effectively and to determine if purchases are in compliance with public procurement laws and the City's policies and procedures. We evaluated:

- Guidelines for compliance with the City Procurement Code and other established City guidelines.
- Internal controls related to the program for sufficiency.
- Cardholder records to determine if they were maintaining adequate documentation to justify purchases.
- Progress made on recommendations set out in the first audit.

Audit fieldwork was initiated in July and concluded in October 1999. Stella Fusaro performed the work. Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing as required by Article III, Scottsdale Revised Code §2-117 *et seq.*

## **Results in Brief**

We did not find any intentional misuse of the Purchasing Card during the period reviewed. Controls designed to ensure compliance appeared to be working. Supervisors, for the most part, were reviewing purchases and signing logs to evidence review. The assignment of a Purchasing Card Administrator to monitor purchases has enhanced the level of oversight and helps ensure that potential compliance issues are addressed in a timely manner.

The Purchasing Division (Purchasing) updated the Purchasing Card Guide (Guide) when the program was initiated citywide and parameters are consistent with the City Procurement Code. The majority of cardholders in our review were following the guidelines. Purchasing also does a good job of training cardholders. We attended the basic training given to first time cardholders and found that most information is covered.

We did note some items that need to be addressed. We found inconsistencies between the Guide, City Administrative

Guidelines (AGs), and information contained within the Guide itself. Some requirements in the Guide are unclear. Other requirements place unnecessary restrictions on use of the card.

We also found that departments are not developing the specific policies and procedures envisioned when the program was initiated. Citywide restrictions were crafted in general terms to allow departments the latitude to develop their own purchasing program. These individualized programs are not being developed. As a result, criteria that can be used to evaluate whether or not a purchase was appropriate and made in compliance with departmental objectives is limited.

We also found inconsistencies in the level of review and documentation of purchases. Purchases made by some cardholders are not reviewed other than the monitoring undertaken by Purchasing. Others have supervisors who actively review usage. For the majority of cardholders, the level of review is somewhere in between. Many purchases were not supported with receipts. In other cases, receipts did not contain sufficient information to substantiate the purchase. Detailed information regarding the purpose of the purchase was not available consistently. Pre-approvals, required for certain types of expenses, were not routinely documented.

We believe program compliance issues are the result of inadequate training at the supervisor level as well as unclear requirements. The practice of allowing certain cardholders to forego training also impacts compliance.

To address these issues, we recommend:

- Revisions to the citywide Administrative Guidelines (AGs) that relate to or are impacted by the Purchasing Card.
- Reconsideration of restrictions on Purchasing Card usage.
- Developing an approved product list for hazardous materials.
- Expanding the use of the Internet, developing procedures to determine secure sites and providing appropriate training.
- Establishing procedures for procuring food catering services and rental of vehicles.

- Clarifying the intent of the Procurement Code
- Requiring development and periodic updating of department specific procedures.
- Developing and requiring supervisors to attend a training program outlining supervisor responsibility.
- Requiring all cardholders to receive basic training.
- Requiring supervisors to follow up and document steps to reinforce compliance.
- Implementing a procedure to periodically verify that purchasing cards are canceled when appropriate.

During our audit, an issue needing further work came to our attention. We identified four separate instances where the purchasing card was used by an employee while out-of-town on business related travel. Three of the four employees had not submitted travel reconciliations for per diem advances. As a result, we could not determine whether the purchasing card expenditure was appropriate. We recommend an audit of the business travel reimbursement process to ensure that proper controls are in place.

## **Background**

In 1995, the City sought to develop a more efficient, cost-effective method of purchasing and paying for small dollar transactions and high volume repetitive purchases. It was estimated that these expenditures, while about 85 percent of the total transactions for the City, were only about 13 percent of the total dollars. Estimates made during the evaluation period indicated that each purchase made with a purchasing card would generate a reduction in costs of approximately \$55 when compared to more traditional purchasing methods.

Another benefit was also envisioned. Departments would be able to identify the most useful item and purchase it more closely to the time needed. Buying the right item at the right time would create additional savings and result in improved service delivery.

At April 1, 1999, there were 449 employees participating. Bank of America, the current vendor, issues the MasterCard with "City of Scottsdale" and the employee name. It can be used at any

supplier that accepts MasterCard. There is no charge to the City, either by transaction or by card, for this service.

Purchasing administers the program and provides guidelines, training, and monitoring. Cardholders are required to attend a one-and-a-half-hour training session. A purchasing card agreement is signed before an employee receives a card.

Each card is programmed with a per transaction and monthly dollar limit. In most cases, the transaction limit is \$2,000 and monthly limit is \$5,000. Employees needing higher monthly spending limits must submit a request approved by their supervisor.

Cardholders are expected to keep a log of all transactions and reconcile their purchases to the monthly statement. Supervisors are responsible for monitoring and approving all purchases made by their employees. The program administrator has the ability to review all transactions online and reconciles total citywide purchases each month. The City receives one monthly bill and pays the total by wire transfer.

Citywide guidelines establish parameters for purchases and each department is encouraged to develop specific policies and procedures. The card is only to be used by the cardholder and can be used, with some exceptions, to purchase supplies and services through in-store purchases, mail, telephone, or fax orders. No Internet purchases are allowed except for the Office Depot Desktop Ordering System. It is not to be used for personal expenses.

The following purchases are not allowed:

- catered food
- vehicle rental
- miscellaneous expenses and meals while traveling
- professional services
- facility leasing
- hazardous materials
- fuel for City vehicles while in town

Other purchases, such as travel reservations and hardware or software purchases, require supervisory or Information Services (IS) approval prior to the purchase being made. As well, the



program allows the City to maintain a list of restricted vendor codes that prevent purchases from certain vendors at the point of sale.

**Controls  
Designed to  
Safeguard  
use of City  
Purchasing  
Cards Need  
to be  
Refined,  
Updated, and  
Strengthened**

Prior to initiating the citywide program, several controls were implemented to safeguard against accidental or intentional misuse. These include development of documented guidelines, training prior to issuance of cards, restrictions on usage and types of purchases, and a structured monitoring program. Our audit was structured to evaluate these controls, test compliance, and develop recommendations to address any issues identified.

From our work, we determined that the controls, for the most part, are working and there is significant compliance with guidelines. However, we found that guidelines governing the use of the card need to be reviewed and updated to clarify intent and reflect actual practice. Most departments have not developed specific policies and procedures as recommended. Program compliance needs to be reinforced with additional training and more effective monitoring by supervisors. Also, we noted that the current procedure for canceling purchasing cards needs to be supplemented with additional controls. These issues will be discussed in the following sections.

**Guidelines  
Need to be  
Updated and  
Clarified**

The Guide serves as the primary guidance for appropriate use of the purchasing card. In addition to this guide, Purchasing sends out quarterly newsletters, periodic e-mail messages related to significant issues and inserts notices in *CityLine*. Through these efforts, cardholders are provided a basic understanding of program expectations.

However, we found that there are inconsistencies between this guide and other citywide AGs. We also noted that the use of the purchasing card appears overly restrictive without complimentary procedures necessary for the restrictions to be effective.

**City AGs  
Should be  
Updated to  
Reflect Current  
Practice**

The City has formalized AGs that set policy and provide direction on a wide variety of topics with citywide application. They are published on the City Intranet for easy access and distribution. There is even an AG that outlines the process to create new guidance or undertake any necessary revisions. Three of these

AGs relate to, or were impacted, by the implementation of the purchasing card program. These include use of credit cards, business meals, and travel expenses. We found that these guidelines were not updated to reflect the purchasing card program.

As a result, AGs created as a means of ensuring uniformity and consistency, no longer reflect current practice. AGs serve to set boundaries and provide direction to employees and failure to maintain current standards results in uncertainty. Without clear direction, desired compliance is difficult to enforce because employees may not be aware of requirements.

*City guideline  
outlining the use  
of credit cards*

AG 220 addresses the use of credit cards by city employees but it has not been updated to reflect the purchasing card program. Modification was apparently started at one point, because the Guide incorporates text referenced as the AG that is different than the online version.

While the modified language incorporated in the Guide is a good start, it would not serve as a replacement. The revised text requires compliance with purchasing card guidelines (Purchasing Guide and the Purchasing Card Guide) but does require compliance with AGs related to business meals or travel related expenditures. As well, it does not address responsibility for ensuring that purchases meet City and State procurement regulations.

We recommend that Purchasing initiate formal revisions to the AG 220 "Credit Card Usage." A statement establishing departmental responsibility for ensuring that purchases meet City and State procurement should be included. As well, cardholders should be instructed to adhere to other appropriate AGs and other related guidelines. The revision should be placed on the City Intranet and also provided to all cardholders and supervisors.

*City guideline for  
expenditures  
related to  
business meals  
and food for City  
meetings*

AG 205 addresses requirements for documentation of business meals and the proper recording of the expense to ensure compliance with IRS regulations. The Guide lists the purchase of non-catered food as an appropriate use but this AG has not been modified to address this method of payment. Although

business meals or food purchases may be valid business expenses, these expenditures may be perceived as a perk, thereby open to public scrutiny. Maintaining good documentation to justify the purchase is essential.

Most records reviewed during our audit were only supported by the name of the meeting or event, not sufficient information according to the AG. While documentation was addressed in the Winter 1999 Purchasing Power Newsletter, the Guide is silent on both required documentation and adherence to the AG.

Use of the purchasing card also impacts the ability to monitor these types of expenditures. AG 205 also requires all expenses related to business meals and food for city meetings to be reflected in the business conference account. This allows a comparison of budgeted to actual for analysis and monitoring. Under the purchasing card program, departments are not required to re-allocate expenditures to appropriate accounts. Without this re-allocation, use of the purchasing card for business meals and food will not be easily monitored. Expenditures will be combined with other types of expenses.

We recommend that Purchasing initiate revisions to the AG for City business meeting food expenditures to reflect the use of the purchasing card. Departments should be required to submit adjustments to properly reflect business meals and food purchases in the proper account. The revision should be placed on the City Intranet and also provided to all cardholders and supervisors. As well, the Guide should be updated to include requirements outlined in the AG.

*City guideline for  
travel related  
expenditures*

AG 210 addresses policies and the process to be used when it is necessary to travel for City business. While the Guide allows the use of the card to pay hotel, airfare, and registration fees, the AG has not been revised to reflect this practice. The card is also being used for meals and miscellaneous expenses while traveling even though neither the Guide nor the AG considers this usage as acceptable.

According to the AG, business travel arrangements should be made using a travel requisition. This method ensures that airfare, registration, and hotel accommodations and any necessary per diem advance can be reviewed and approved at

the same time. Credit cards for specific car rental agencies can be obtained from Financial Services for use if necessary.

Upon completion of the trip, employees are instructed to submit a travel reconciliation to account for any excess funds or obtain reimbursement for other expenses. Through this process, it is possible to identify and reconcile all expenses related to a particular trip.

Use of the purchasing card, as currently structured, does not provide a review of costs prior to the trip nor is there assurance that all expenses will be reconciled at the conclusion of the trip. Neither the AG nor the Guide requires a travel requisition or reconciliation to tie all expenses related to a trip.

As discussed in the previous section, these expenses will remain in a miscellaneous account unless an allocation is made to distribute the expenses to the appropriate account. As a result, all expenses related to travel will not even be reflected in the correct account as a means of monitoring expenditures.

During our review, we found four occasions where an employee had used the purchasing card for travel related expenses. Three employees did not submit travel reconciliations to account for the per diem advance. Two expenditures appeared to be related to meal expenses, an expenditure that should have been covered by the per diem advance. The third expenditure was for hotel accommodations. The detailed bill was not attached to the purchasing log so we were unable to determine whether or not any meals or incidentals were charged to the room. Because of the lack of documentation, we were unable to determine if cardholders properly accounted for the expenses charged on the card.

We recommend that Purchasing initiate a revision to the AG to clarify the use of purchasing cards for travel related expenditures. Travel reconciliations should be required when the card is used for travel related expenditures. Departments should also be required to submit adjustments to properly reflect the expenditure in the correct account. The revision should be placed on the City Intranet and also be provided to all cardholders and supervisors. As well, the Guide should be updated to reflect the revised AG.

Guidelines  
Should be  
Revised to  
Provide Clear  
Requirements  
and Eliminate  
any Unnecessary  
Restrictions

Guidelines should include sufficient controls to ensure compliance with the Procurement Code and reduce risk. They should also be flexible enough to meet program goals and objectives as well as departmental needs.

The focus should be on the risk involved with the purchase rather than on how the City pays for the purchase. Using a purchasing card should require the same level of oversight associated with using a check requisition or purchase order. Only when there is a documented risk should the use of the purchasing card be more restrictive.

Purchasing card guidelines contain a number of restrictions on purchases that are considered to be high risk to the City. These include:

- a requirement for supervisory approval for certain purchases,
- a requirement for IS approval of software and hardware,
- restrictions on purchases of hazardous materials,
- limitations on the method used to make the purchase,
- restrictions on the use of the card for catering and vehicle rental, and
- transaction limits to ensure compliance to purchasing guidelines.

We found, however, that the purchasing card guidelines do not discuss the reason for the restrictions. When use is restricted, sufficient information to make an informed decision on the appropriateness of the use is missing. In some cases, the restrictions require more steps than would be required if a check requisition was used. Others cannot be implemented because of missing elements. Some focus on the process instead of the desired outcome.

As a result, cardholders are not as likely to comply or will look for alternative means to acquire goods or services. Without a desire to comply on the part of the cardholder or an effective process, the restriction becomes an artificial compliance measurement,

enforced only because it exists, not because it adds value to the program.

*Restrictions on  
purchases by  
requiring  
pre-approval*

The Guide requires supervisory pre-approval prior to the use of the purchasing card to pay for memberships, conferences, seminars, dues, subscriptions, and travel. According to Purchasing, the supervisory pre-approval is meant to ensure the prudent use of City funds.

We found that this pre-approval process appears to exist only because of the method of purchase and does little to ensure prudent use of funds. According to Purchasing, supervisors can grant blanket authorization to a cardholder as a means of satisfying the requirement. An approval process that allows a supervisor to grant authorization without reviewing the actual expenditure does no more to ensure prudent use of funds than a monthly review of expenditures after the fact.

The guideline does not distinguish between cardholders who have signature authority and those who do not. In effect, the process requires approval even though a cardholder may have already been granted the authority necessary to expend the funds.

Additionally, the language in the guide is confusing. Use of the card for conferences and seminars requires pre-approval, but using the card for training related expenditures does not. The difference between conferences, seminars, and training is not explained and the words are often used interchangeably. This confusion would lead to potentially different interpretations of whether or not pre-approval was required.

We recommend that the pre-approval restriction be discontinued. In its place, each department should be required to develop specific procedures governing authorization of travel related expenses, memberships, dues, and subscriptions. These restrictions should be in effect regardless of the method of payment. Periodic reviews could then be undertaken to ensure that procedures were followed.

*Requirement for  
IS approval prior  
to use of the  
purchasing card  
to purchase  
computer related  
hardware and  
software*

During our audit, we attempted to verify compliance with the requirement for IS approval of purchases related to hardware and software. We found numerous instances in which the purchasing card was used to purchase software and miscellaneous items. Many times, approval was not evidenced.

The Guide does not set any monetary limit or purchase type when setting out the requirement for IS approval. The current guide would require evidence of IS approval regardless of the type of expenditure or cost.

IS stated that approval was a necessary function to ensure that hardware and software purchases were compliant with City computing standards. However, there are a wide variety of computer related items that would not impact city computers. For example, keyboard extension cords.

Similar restrictions are not required when using alternative methods. For example, a petty cash reimbursement request could be submitted for computer-related expenditures under \$50. The same item, acquired with the purchasing card, would require approval.

We recommend that Purchasing and IS reconsider the requirement for IS concurrence. The requirement would be more effective by placing a reasonable limit to allow for purchases of small dollar items such as extension cords. IS approval would be required for software and hardware items, normally difficult to return, regardless of the method used. Periodic reviews of purchases could be undertaken to ensure compliance.

*Use of the  
purchasing card  
to purchase  
hazardous  
products*

During our audit, we attempted to verify compliance with guidelines regarding the restriction of the purchasing card for hazardous products. The purchasing card may not be used to purchase materials “whose use or disposal may fall under hazardous materials or waste requirements.”

However, the guideline also provides that a cardholder may use the purchasing card if: 1) it is necessary to meet an immediate operational need; 2) it is on the approved list of products issued by Environmental Affairs; 3) the identical product or brand has been purchased previously; 4) the MSDS sheet for the product is on file in the work area or is acquired with the purchase.

Environmental Affairs does not keep an approved list of products. The guide is also unclear as to whether all four of the qualifiers must be met in order to use the card or if only one would be sufficient. As such, it appears that as long as there was an immediate operational need, the item could be purchased. The guidelines are also silent as to how to document the appropriateness of these types of purchases.

We recommend that Environmental Affairs be required to develop an approved product list for hazardous materials. Through this process, a central document depository of MSDS sheets could be maintained. The approval process would reaffirm the City's commitment to use only environmentally friendly products. Expenditures could be periodically verified against the approved list as a means of monitoring compliance.

*Restrictions on  
the use of the  
purchasing card  
for purchases via  
the Internet*

Currently, purchases via the Internet are restricted to orders made using the Office Depot Desktop Ordering System. To use this, the cardholder must attend special training. In addition to this site, Purchasing authorized a library employee to make purchases from Amazon, an Internet vendor. Purchasing was unclear as to why use of the site was restricted to one individual.

Other cardholders are ordering books through Amazon as well as making purchases such as airline travel through Internet vendors. Compliance with the restriction on Internet purchases is difficult to monitor. Many vendors like Amazon allow the purchase to be initiated on-line and completed by phoning in the credit card number.

The use of the Internet to acquire goods needed for City operations should be an acceptable alternative. Through the Internet, employees can access a wide variety of vendors. It provides a convenient method of price comparison and allows the purchase to be completed without leaving the office. Credit card information, encrypted during transmission, is more secure than providing the information over the phone or faxing a request. As well, the risk associated with unauthorized purchases is limited.

Federal law sets the maximum liability for unauthorized purchases at \$50.00. Combined with the low transaction and monthly credit limits on most purchasing cards, the exposure is minimal. Steps, similar to what IS did when approving the use of Amazon, can further reduce the risk. Having Internet savvy



employees will also serve to reinforce the city's efforts to move towards e-business applications.

We recommend that IS and Purchasing implement training programs structured towards expanding the use of the Internet as a purchasing alternative. Additionally, criteria necessary to determine if a site is secure should be developed and documented. Through this process, guidelines for both internal applications as well as external vendors could be developed.

*Restrictions  
should have  
complementary  
processes  
designed to  
obtain the  
desired outcome  
of the restriction*

The Guide prohibits the use of the card to acquire the services of caterers and vehicle rentals. These restrictions are meant to ensure that issues related to liability and/or IRS requirements can be dealt with prior to entering into the purchasing arrangement. Cardholders are instructed to contact a Purchasing buyer for assistance or, in the case of vehicle rental, to use a vendor specific credit card.

Complementary processes necessary to make these restrictions valid do not exist. Purchasing stated that it was necessary to restrict the use of the card for catering services because there was a potential that someone could use an unlicensed caterer. However, during our review, we were told that Purchasing would simply tell the cardholder to use a check requisition when it was necessary to obtain catering services. No additional steps were taken to reduce any potential liability.

Similarly, we were told that it was necessary for contracts related to vehicle rental to be reviewed. Purchasing had reviewed the contracts for vendors. Using those vendor specific credit cards ensured that the appropriate contract terms were included. However, there are no guidelines that restrict vehicle rental to these specific vendors. An employee may use a personal credit card and submit the item for reimbursement, effectively exposing the city to the same risk as if a purchasing card was used.

If it is necessary to restrict rental of vehicles to specific vendors, then a citywide policy should be adopted precluding the use of any vendor not on the approved list. The risk to the City would be minimized and the purchasing card would be more useful.

We recommend that Purchasing evaluate the risk associated with procuring food catering services and vehicle rentals and develop procedures necessary to address the level of risk.

*The intent of the  
Procurement  
Code needs  
clarification*

The Guide ensures compliance with the City Procurement Code by restricting transactions over certain limits. Cardholders are instructed not to artificially split purchases to avoid the limit. By establishing limits and restrictions, there is some assurance that transactions made with purchasing cards meet requirements for price comparison or competitive bidding.

Neither the Guidelines nor the Procurement Code address situations where there is an ongoing relationship with a specific vendor or a continual need for similar items. These situations may result in frequent, repetitive purchases less than the daily transaction limit. However, due to the ongoing nature of the relationship, the volume may be such that it would be prudent to seek competitive bids or document steps taken to compare prices. As well, both documents are silent on circumstances in which transactions can be considered separate, even though circumstances require the purchase to be made on the same day.

As a result, there is a potential for a wide interpretation of whether or not purchases meet the intent of the Procurement Code. For example, under the purchasing card guidelines, purchases of commodities such as food concessions as well as items such as maintenance related parts that would normally be stocked could be routinely purchased. Each transaction would be considered a separate event. However, these purchases could easily meet the threshold for competitive pricing or bidding if the transaction limit was based on annual volume.

There are also instances in which the restrictions lead the cardholders to find ways around the transaction limits even though the purchase may legitimately exceed the limit. For example, travel arrangements. Availability of flights and other circumstances may drive the ultimate selection of arrangements, not the price comparison. Additionally, if several employees need to travel at the same time, multiple tickets may exceed the daily limit. In this case, transaction limits force the use of a check requisition or purchasing multiple tickets as separate transactions to avoid daily limits.

The intent of the Procurement Code is to ensure that the City is getting the best price based on the quantity and quality of the goods or services needed. This intent does not appear to be served by a process that allows numerous purchases of like

items from the same vendor on a consistent basis as long as daily limits are observed.

Prior to the implementation of the purchasing card, these transactions would have required a purchase order. This process allowed Purchasing to monitor the volume of purchases and determine whether or not the goods or services should be placed out for quote or bid. This control has not been replaced with the per transaction limit, instead departments are left on their own to determine whether or not the best purchasing arrangement is obtained.

We recommend that Purchasing clarify the intent of the Procurement Code as it relates to multiple, repetitive purchases. Clarification of requirements for travel arrangements should also be added. Departments should then be required to document why purchases made to vendors, in excess of pre-established amounts, were not submitted for quote or bid.

**Policies and  
Procedures  
Should be  
Required to  
Provide  
Additional  
Guidance on  
Department  
Specific  
Issues**

The Guide is an effective tool for setting citywide standards for the use of the card. It was intentionally crafted to address broad citywide compliance issues. To ensure that department needs could be met, each department was encouraged to draft unique policies and procedures. This allowed parameters to be set based on the goals and objectives of the department. These specific policies and procedures are important because the program delegates responsibility for meeting City and State procurement requirements to the department. Compliance, at the department level, is monitored based on department specific standards.

We found that, while departments are encouraged to develop specific procedures, few have done this. Several had started the process during the previous audit and were in various stages of implementation. Some had not initiated any additional procedures. As a result, procedures that would assist in monitoring the activity within departments were not consistently available. It is important for these specific guidelines to be developed to ensure that employees are aware of department expectations necessary to meet goals and objectives.

Issues that should be addressed in these policies and procedures would include appropriate use of the purchasing card. For example, cardholders could be given specific guidance

regarding the process to purchase items such as small tools. If an appropriate use, supplemental procedures such as inventorying equipment should be in place to ensure that the tool did not get misplaced or lost.

As well, departments could establish lower individual purchase limits. For departments such as Community Services, where many front line employees are provided purchasing cards, it may be appropriate to set limits based on average use. The department would also have greater control over expenditures by restricting the use of the purchasing card to unforeseen circumstances. Establishing a departmental process to acquire normal operational items such as fertilizer and plants would allow better control over both the volume and quality of materials.

We recommend that departments be required to document specific policies and procedures for the use of the purchasing card. In order to ensure consistency with citywide program goals, these policies and procedures should be provided to Purchasing for review and periodically updated.

**Training Should  
be Developed  
so all  
Cardholders, as  
well as  
Supervisors, are  
Aware of the  
Specific  
Expectations of  
the Program**

Training programs are developed to ensure that employees understand expectations or steps necessary to carry out a job function. Lack of training reduces consistent understanding of expectations and has the potential to result in non-compliance.

Purchasing has implemented a consistent training program for cardholders. Controls are in place, in most instances, to ensure that no purchasing card is released before the cardholder attends a training class. However, we noted that limited training is available for supervisors. We also noted that certain executive management cardholders, granted special status, have had the requirement to attend training waived.

Knowledge of requirements and active involvement of supervisors, as well as executive management, sets the tone in the organization for compliance with established guidelines and ethical use of the purchasing card. If supervisors and executive management do not place importance on following established guidelines, are not familiar with rules, or apply standards inconsistently, cardholders will not believe following established guidelines is part of the culture of the organization.

To help set the direction regarding compliance with guidelines, supervisors need to identify and follow-up when a cardholder

does not follow established guidelines. During our review, we found numerous instances in which supervisors had not evidenced follow-up with cardholders who had not followed appropriate guidelines.

Executive management, who have purchasing cards, need to understand and follow the guidelines to avoid the perception that it is acceptable for some cardholders to not follow guidelines. We also noted instances in which executive management were not following established guidelines. Because these cardholders do not have an independent review of activity, it becomes even more important that they understand the correct use of the purchasing card.

Specialized  
training needs  
to be developed  
for supervisors  
who monitor  
purchasing card  
usage

In order for a supervisor to be effective in monitoring usage, the supervisor must be aware of established guidelines. They must also be informed of the importance of ensuring that cardholders are held accountable. To ensure that supervisors are aware of requirements, Purchasing invites them to accompany cardholders to training. We found that 75 percent of the supervisors in our sample had attended. The Guide also outlines suggested steps when reviewing purchases.

During our audit, we found supervisors were usually consistent in evidencing review of the log, but in numerous instances documentation such as receipts, detailed description of purchases, and required pre-authorization of certain purchases were missing. There was no evidence noted on the logs or attached to the logs that supervisors had followed up on or questioned the lack of supporting documentation. We believe the inconsistencies noted are the result of encouraging, but not requiring, supervisors to attend training.

While some supervisors attended cardholder training, this opportunity focuses on basic requirements of purchasing card usage and record keeping. It is not structured as training that would help supervisors effectively implement the program within a department.

We recommend that Purchasing develop a training segment specifically for supervisors. Attending this training should be a requirement before the supervisor can authorize the issuance of a purchasing card. As well, specific requirements of the review

process should be provided to the supervisor in the form of a review checklist or other easy to reference material.

All cardholders  
should be  
trained on using  
the purchasing  
card

The Guidelines require that all cardholders attend training prior to receiving their purchasing card. Cardholders are provided a copy of the Guide and sign a contract outlining the responsibility for the purchasing card. This process ensures that the cardholder understand the responsibilities. It also provides the City with documentation evidencing that the cardholder agreed to abide by the terms. This is an important step in protecting both the cardholder and the City should questions be raised regarding the appropriateness of use.

Although no exceptions are noted in the guidelines, the City has a group of "special cardholders" in high profile positions that have not been required to attend training. These individuals do not have a supervisor reviewing their purchases and most have a transaction limit of \$3,000, higher than the maximum limit for small dollar purchases. Because the cardholders have no independent review of activity and have limits that create a greater risk for the City, it is important that the requirements and guidelines be understood. Adequate training helps cardholders avoid possible mistakes. As well, because these cardholders serve in a management role, other cardholders will follow the tone set by their usage. If the executive management models effective, ethical use of the purchasing card through adherence to the guidelines and reinforcement to other cardholders in the organization, it will become part of the culture of the organization.

We recommend that Purchasing require all cardholders to attend some form of training. If circumstances prevent a cardholder from attending class open to new cardholders, perhaps one-on-one training could be offered.

Compliance  
with guidelines  
needs to be  
reinforced

The Guide outlines the need for a cardholder to maintain adequate documentation of a purchase. The guidelines also require adherence to other requirements developed to reduce potential risk. These include pre-approval for certain purchases, timely reconciliation to statements and supervisory review, and approval of monthly transactions. To ensure sufficient detail is kept regarding the expenditure, cardholders are instructed to write details about the transaction on the back of the receipt or attach the receipt to another paper with the details. Receipts,

notes, and transaction logs are to be provided to a supervisor for review unless the General Manager/ Administrator has waived the requirement for review. In addition to the guidelines, Purchasing releases periodic newsletters that reinforce practices such as the Winter 1999, Purchasing Power Newsletter that highlighted what was considered good documentation to support the use of the purchasing card.

During our review, we noted numerous instances in which documentation was not sufficient to serve as adequate support for the purchase. We also noted instances in which pre-approval requirements were not met prior to the purchase. We also found cardholders were not reconciling purchases to statements in a timely manner nor were supervisors reviewing monthly purchases in a timely manner.

*Documentation should include receipts or invoices that validate the purchase price and enough information for a reasonable person to determine that the purchase was a valid City business expense*

Adequate documentation is important to provide support for the appropriateness of the purchase and provide historical information. The Guide requires cardholders to attach all original receipts to the transaction log. The reason for the purchase along with sufficient explanation of the use of the purchase is to be included on the receipt or log. This information should be in sufficient detail to allow the supervisor, or someone independent of the purchase to determine appropriateness of the expenditure without verbal explanation. If cardholders do not maintain the required documentation, the City may not have required support to justify the purchase. As a result, the use of the purchasing card may appear questionable.

During our audit, we found that six percent of transactions reviewed did not have adequate supporting documentation. Receipts were missing, amounts on receipts did not match the charge, and detailed descriptions were missing. Some cardholders did not have logs and others did not have adequate descriptions on the logs. Additionally, when cardholders completed the description portion of the log, often it was not enough information to explain the program and purpose. For example, the majority of food purchases had the meeting name or acronym but did not include the names of the participants or why it was a business expense. Some attached receipts were the portion signed by the cardholder, not the detailed portion showing the items purchased. Cardholders gave various reasons for missing receipts. Some transactions were phone

orders where the cardholder did not obtain or keep the receipt while others were simply lost or misplaced.

We also found that supervisors were not evidencing follow-up with cardholders when documentation was not adequate. Follow-up and re-education on non-compliance issues is important to ensure that the City is accountable for its expenditures and increases its credibility with its citizens.

We recommend that the need for appropriate documentation be reinforced with cardholders as well as supervisors. In order for the documentation to be considered adequate, cardholders should be instructed to attach a receipt or documentation that includes a description of the item purchased, the price paid, and a sufficient explanation that a reasonable person could determine that the purchase was a valid City business expense.

*Documentation should include proof that the cardholder has complied with the Purchasing Card Guide pre-authorization requirements*

The Guide requires supervisory pre-approval for memberships, conferences, seminars, dues, subscriptions, and travel as well as IS approval for hardware and software purchases as previously discussed. These pre-approvals are meant to increase management control over purchases, avoid duplications, and ensure efficient system coordination.

We found cardholders that did not have the required IS or supervisory pre-approval documentation with their logs or receipts. Some of the cardholders said they contacted IS but did not get written documentation or failed to print it. Others did not think they needed IS authorization for training software or other small purchases. Many cardholders indicated that they were not aware that supervisory pre-approval needed to be documented for travel related expenses, conferences, training courses, dues, subscriptions, and memberships.

We recommend that Purchasing reinforce the need for pre-approval with cardholders and supervisors. Supervisors should be instructed to evidence follow-up with cardholders who do not follow established guidelines.

*Cardholders should be required to timely reconcile transaction logs and statements*

The Guide requires cardholders to reconcile purchases to each monthly MasterCard statement to ensure that all the purchases are valid. Timely reconciliation is important to allow sufficient time to dispute erroneous charges. If the City does not dispute these charges within 60 days of the billing date, it loses its right



to dispute. The Guide requires that the MasterCard statement be reconciled within seven days of receipt.

We found that 46 percent of cardholders reviewed, either had not reconciled to the April MasterCard statement prior to the end of the month, did not evidence the date of reconciliation, or did not keep transactions logs. Of these cardholders, 22 reconciled some time the following month, four reconciled in June, one reconciled in July, and three reconciled in August. There were 11 cardholders that did not date the signatures and we were unable to determine when they were reconciled. The remaining four cardholders did not have logs to serve as a means of evidencing reconciliation. Again, supervisors did not evidence follow-up with cardholders to reinforce the need for timely reconciliation.

Timely reconciliation is one of the most important controls within this program as it is currently structured. Because payment of transactions incurred with the purchasing card is made without individual user authorization through the electronic transfer of funds, inappropriate or unauthorized transactions are more likely to be paid if a cardholder is not diligent in reviewing activity in a timely manner. The role of ensuring that this happens falls to the supervisor or general manager who waives the requirement for review.

We recommend that Purchasing reinforce the requirement to timely reconcile expenditures to MasterCard records and adequately document the reconciliation process. Periodic monitoring of the process should be implemented to identify cardholders and supervisors in need of re-training.

*Supervisors should  
be required to  
adequately review  
transactions,  
document  
cardholders who are  
excluded from  
review, and evidence  
timely review*

The Guide outlines the important role supervisors play in monitoring cardholder expenditures. Supervisors are required to review transaction logs and evidence the review by signing and dating the log. Through this review, supervisors are attesting that they have reviewed purchases for appropriateness and adherence to City requirements. The review also reinforces the need for cardholders to make appropriate purchases and provides a means for supervisors to consider the impact of purchases on a departmental budget.

We found that 13 percent of transaction logs reviewed did not have evidence of a supervisor review. Without evidence of

review, it is difficult to determine whether or not supervisors are fulfilling their role in monitoring expenditures. If supervisors do not fulfill this role, cardholders in need of re-training and inappropriate purchases or inadequate documentation may not be identified in a timely manner.

We found that we could not come to a conclusion regarding the number of logs that did not evidence review. The Guide provides for a department general manager or administrator to waive the requirement for review, so it is possible that an informed decision was made. For example, to not review purchases made by cardholders who have signature authority for department expenditures. Because this waiver is not required to be documented, we could not determine if the decision had been made as opposed to a supervisor electing not to perform the review or simply not signing the log to evidence the review.

We recommend that Purchasing reinforce the role of supervisory review of purchases and require supervisors to document review. General Managers or Administrators should be required to document waiver of the requirement and provide a list to Purchasing.

**Controls to  
Ensure that  
Purchasing  
Cards are  
Canceled in a  
Timely Manner  
Need to be  
Implemented**

The Guide outlines steps to cancel a purchasing card and provides a means to allow a cardholder to keep a previously approved purchasing card when transferred to another department. In an environment where payment is separate from the actual approval of the purchase, control over cancellation and transfer becomes imperative. Through electronic transfer, unless the charge is disputed, amounts charged to City credit cards will be paid and charged to the department authorizing the purchasing card regardless of whether or not the charge is appropriate.

The Guide requires that purchasing cards be returned to the Program Administrator upon termination. It is the responsibility of the employees' supervisor to obtain the purchasing card and notify the Purchasing Card Administrator. During our review, we found seven terminated employees on Purchasing's current cardholder list dated April 1, 1999. Of these seven, four purchasing cards had not been canceled. We verified that none of these four purchasing cards had any charges after their termination date.

Currently, the Purchasing Card Administrator has no way of knowing that a cardholder is no longer working for the City without notification from the employee or the employee's supervisor. To help ensure that this notification occurs, Human Resources is currently in the process of establishing written procedures for the exit interview process and will include instructions to obtain the purchasing card from cardholders leaving City employment.

We recommend that Purchasing, in addition to relying on notification, periodically obtain a terminated employee list from Human Resources and compare this to the current cardholder list to ensure that all purchasing cards are canceled in a timely manner.

## **RECOMMENDATIONS**

The Purchasing Director should:

1. Initiate revisions to the citywide Administrative Guidelines as they relate to or are impacted by the Purchasing Card.
2. Reconsider restrictions on Purchasing Card usage.
3. Develop an approved product list for hazardous materials.
4. Expand the use of the Internet procedures to determine reputable vendors with secure sites and provide appropriate training for cardholders.
5. Establish procedures for procuring food catering services and rental of vehicles.
6. Clarify the intent of the Procurement Code and require the development and periodic updating of department specific procedures.
7. Develop and require supervisors to attend a training program outlining supervisor responsibility and require all cardholders to receive basic training.
8. Require supervisors to follow up and document steps to reinforce compliance.

9. Implement a procedure to periodically verify that purchasing cards issued to terminated employees were canceled.

#### **ABBREVIATED RESPONSE**

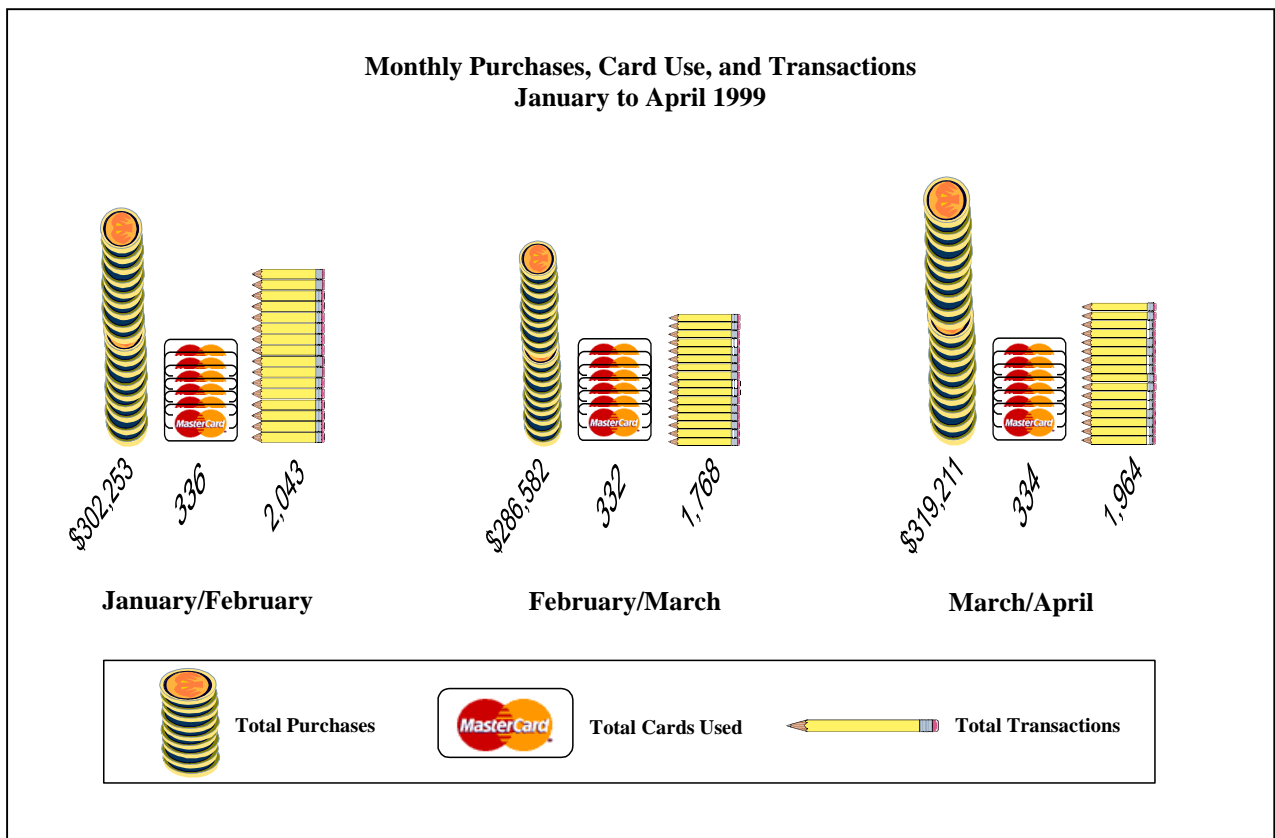
Management has agreed to the findings and is making plans to implement the recommendations. See Appendix B for the detailed response.

## APPENDIX A

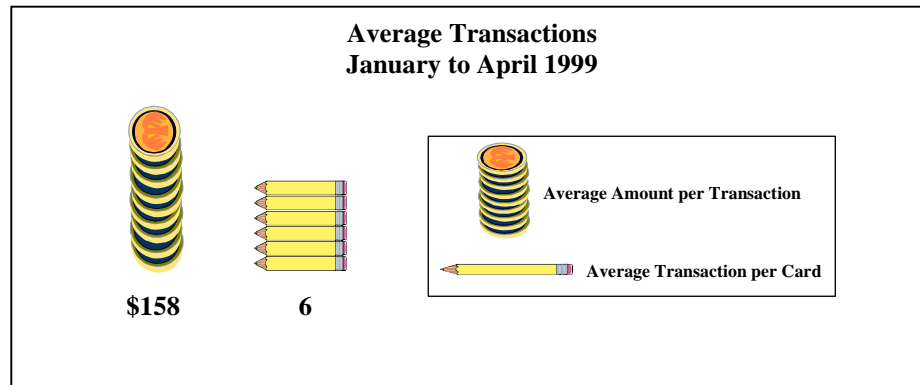
### OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of the Purchasing Card Audit is to determine if City assets are being used effectively under the purchasing card program, and to determine if purchases are in compliance with public procurement laws and the City's policies and procedures. The audit is an approved project on the City Auditor Fiscal Year 1998/99 audit plan.

We attended a purchasing card training class and interviewed staff. We also reviewed the Purchasing Card Guide (Guide) and City Procurement Code to gain an understanding of the purchasing card process. In addition, we analyzed purchasing card usage and departmental trends over a three-month period from January 13, 1999, through April 12, 1999. The chart below illustrates this three-month period.



The following chart illustrates an approximate average per card:



Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code §2-117 *et. seq.* Fieldwork took place from July 1999 to October 1999. Four tests were conducted. Methodology for each test is discussed below.

**Test 1:** Review of purchasing card training.

**Objective:** To determine if purchasing card users received training on the use of their purchasing cards and their responsibilities as a cardholder.

**Method:** In order to determine if all cardholders had received adequate training, we reviewed the Guide, attended purchasing card training, and checked purchasing card training attendance sheets for the cardholders in the sample. We also reviewed attendance sheets to determine if all supervisors of the cardholders in the sample had attended the required training.

**Criteria:** All cardholders and their supervisors are required to attend purchasing card training.

**Results:** Five of the 75 (7 percent) cardholders in the sample had not attended purchasing card training. Of the five, four were on the “special cardholder list” and were not required to attend training. The other cardholder participated on the pilot project committee and was, therefore, excused from attending training. Thirteen of the 51 supervisors in the sample (25 percent) had no record of attending the training.

**Test 2:** Review of purchasing cardholder agreements.

**Objective:** To determine if all cardholders had signed the purchasing card agreement.

**Method:** We reviewed purchasing card agreements for signatures for all cardholders in the sample to determine if all cardholders signed that they were aware of their responsibilities as purchasing cardholders.

**Criteria:** All cardholders should have signed the purchasing card agreement prior to receiving their purchasing cards.

**Results:** Ninety-nine percent of purchasing card agreements tested, were signed and on file.

**Test 3:** Comparison of terminated employee lists to current cardholder list.

**Objective:** To determine if terminated employees' purchasing cards have been canceled.

**Method:** We compared a list of employees terminated from the City for the period August 14, 1999, through April 13, 1999, which we obtained from Human Resource Systems, to a list of current cardholders dated April 1, 1999, to determine if terminated employees' purchasing cards had been canceled. For those cardholders found on both lists, we checked to see if any purchases had been made since the date of termination. We also verified whether or not those purchasing cards had been canceled after the employees' termination date.

**Criteria:** All employees' purchasing cards should be canceled on their termination date.

**Results:** Seven terminated employees were found on the Purchasing Division's current cardholder list dated April 1, 1999. Of these seven, three purchasing cards had been canceled but had not been deleted from the cardholder list. The other four had not been canceled. None of these four purchasing cards had any charges after their termination date.

**Test 4:** Examination of purchasing card logs and receipts and invoices.

**Objective:** To determine if cardholders are in compliance with the City Purchasing Card Guide.

**Method:** The period March 15, 1999, through April 12, 1999, was chosen as the sample period as the most recently (at the time the sample was selected) completed

period that should be reconciled by the cardholder. A total of 334 cardholders used their purchasing card during this period for 1,964 transactions totaling \$319,210.58. The number of cardholders using the purchasing card has remained fairly consistent during the first three months of the calendar year. Therefore, the sample month is representative of average number of cardholder usage, total dollars charged, and average dollars of purchase during this period of time. We selected both a random sample and a judgmental sample to test.

#### Random Sample

A random sample of five percent (17) of the total cardholders (335) was selected from the MasterCard statement for the period March 15, 1999, through April 12, 1999. An auditor prepared analysis report was used to assign each cardholder in the population a distinct identification number. The sample was then chosen using Microsoft Excel's Random Selection tool. Twenty numbers were requested since there was a possibility of duplication.

The first 17 numbers were then matched to the unique number assigned to a corresponding cardholder. All the transactions associated with that cardholder for the sample period were then reviewed.

This sample included a total of 141 transactions (seven percent of the monthly total transactions) with a total value of \$28,113.02 (nine percent of dollars charged for the month). The sample was compared to the total distribution of cardholders and dollar expenditure to ensure that it represented the distribution of cardholders by department.

#### Judgmental Sample

In addition to the random sample, a judgmental sample of three percent of total transactions was chosen for the same period. This sample represented 58 transactions for 58 cardholders. During the audit, 22 cardholders were added for a total of 80 cardholders. All transactions made by these cardholders were reviewed for a total of 627 transactions totaling \$108,209.50.

The judgmental sample was made using a report prepared by the auditor utilizing the MasterCard statement information for the period of March 15, 1999, through April 12, 1999. The report includes all transactions for the period sorted by department, transaction date, and supplier. Selection was based on criteria outlined in the Guide requiring additional approval or prohibiting expenditure. These expenditures included purchases requiring supervisory or IS approval such as travel, hardware, software, memberships, and subscriptions. In addition, transactions such as fuel purchases, Internet ordering (other than Office Depot Desktop Ordering System), hazardous materials, rental cars, per diem items, catering, and professional services were chosen. Transactions such as food purchases, both at



grocery stores and restaurants, and video purchases as well as items that appeared to be small tool purchases were also selected due to their high visibility.

Transaction limits were included, as well as purchases that appeared to be split purchases, to determine whether cardholders were complying with restrictions on purchase limits. Any cardholder with multiple transactions with the same vendor on the same day totaling more than \$2,000 had one of those transactions selected. As well, cardholders with purchases in excess of the cycle limit had one transaction selected.

We went through the list by department and cost center and chose at least one transaction meeting the criteria for selection. If a department or cost center did not have a transaction that appeared to meet the criteria, then no transaction was selected. We attempted to evenly distribute transactions among each of the selection criteria and the initial sample was expanded to include more transactions representing the criteria outlined. Due to the volume, all transactions meeting the criteria for selection were not selected. Some departments had more than one transaction selected.

**Criteria:** Transactions should be supported with adequate documentation, be appropriate based on department need, evidence appropriate review and reconciliation, and be in compliance with City guidelines. We examined documentation for the following:

1. The purchasing card should only be used by the person to whom it is issued.
2. Expenditures should not be made through the Internet other than Office Depot Desktop Ordering System.
3. MasterCard statement should be reconciled within seven days of receipt.
4. Purchasing card log should be complete with details of whom, when, where, and why each purchase was made.
5. The cardholder and his or her supervisor should sign purchasing card log.
6. No transactions over \$2,000 and no split purchases to circumvent transaction limit.
7. No transactions over the monthly purchasing card limit.
8. Written authorization must be received from IS prior to purchasing hardware and software.
9. No fuel for City vehicles.

10. No catering services.
11. No vehicle rental.
12. No professional services.
13. No purchase of hazardous materials.
14. No use of purchasing card for personal purchases.
15. Supervisory pre-approval required for travel expenses such as airline tickets, seminars, conferences, and hotel reservations.
16. Cardholders should document and follow up on disputed charges.
17. Cardholders should properly document, on the purchasing log, if the sales and use tax was paid.
18. For cardholders using the purchasing card for travel, check travel advance reconciliation to make sure items charged on the purchasing card are not also being reimbursed.
19. Ask cardholder location of tools purchased with the purchasing card.

## Results:

For the most part, cardholders are in compliance with City guidelines, however, the following discrepancies were noted in our review:

<b>Discrepancy</b>	<b>Number of Discrepancies Noted</b>	<b>Per Transaction or Cardholder</b>
No Receipts Attached	49	Transactions
Card Sharing	4	Cardholders
Internet Purchases Other Than Office Depot	9	Transactions
Not Reconciled to MasterCard Statement Within 7 Days	45	Cardholders
Log Information Incomplete	8	Cardholders
Log Not Signed By Cardholder	6	Cardholders
Log Not Signed By Supervisor	12	Cardholders
Transactions Over \$2,000 & Split Purchases	6	Cardholders
Transactions Over Monthly Limit	2	Cardholders
Required Authorization Not Attached	72	Transactions
Fuel Purchase	3	Transactions
Catering Services	0	Transactions
Vehicle Rental	2	Transactions
Professional Services	1	Transactions
No Hazardous Waste or MSDS Forms	8	Transactions
Personal Purchases	0	Transactions
Follow-Up On Disputed Charges Not Done	0	Cardholders
Sales & Use Tax Not Documented	13	Cardholders

Total Cardholders Reviewed	97
Total Transactions Reviewed	768
Total Dollars Reviewed	\$136,322.50

## APPENDIX B

### MANAGEMENT RESPONSE



#### MEMORANDUM

**DATE:** March 23, 2000  
**TO:** Stella Fusaro, Internal Auditor  
**FROM:** Monroe C. Warren, Purchasing Director *MCW*  
**SUBJECT:** Scottsdale Purchasing Card Audit No. 9600B

Response to Auditor's recommendations

**Recommendation:** Initiate revisions to the citywide Administrative guidelines as they relate to or are impacted by the Purchasing Card.

Management Response: We agree with the recommendation. The Purchasing Division is studying all of the Administrative Guidelines being used by the City. There are several guidelines that are directly impacted by the Purchasing Card Program such as credit cards, business meals and travel expenses. There are other guidelines that are involved to a lesser extent such as ethics, check requisitions, petty cash, etc. All of the guidelines that Purchasing believes need to be changed will be referred to the Financial Services General Manager for his approval.

**Recommendation:** Reconsider restrictions on Purchasing Card usage.

Management Response: We agree with the recommendation. There are several restrictions on the Purchasing Card that are being reexamined in light of a risk analysis. Some of these restrictions are: the use of the Purchasing Card for business meals as opposed to catered food, rental of vehicles vs. the leasing of vehicles, and the proper usage of the Purchasing card for payment of travel expenses. These areas have raised questions in the City and indicate to us that the policies need to be clarified or changed. During this review of Purchasing Card policies, purchasing staff will revisit the practice of allowing departments to "...accumulate expenditures in a global purchasing card expense account...". This practice was started because Accounting staff were inundated with account adjustments each month and Accounting felt the adjustments were immaterial.

We agree with your statement that the focus of the Purchasing Card purchases "... should be on the risk involved with the purchase rather than how the City pays for the purchase". We believe the very use of the Purchasing Card increases the amount of risk to the City by the very nature of the card. Most normal purchases go through a process of review and approval prior to the purchase. The Purchasing Card has moved the responsibility for reviewing a Purchasing card transaction until after the item has been purchased. The simple act of moving the review process increases the amount of risk on these transactions.

We agree with the recommendation that Purchasing review the use of blanket letters of pre-approval by the supervisor. Supervisors who were concerned about possible inappropriate use of the card requested this restriction. Increased supervisor training and oversight will make this present requirement unnecessary.

We agree with the recommendation that Purchasing staff reexamine the restriction that IS approve all software and hardware restrictions. This restriction was created at the request of Information Systems. We have found instances where cardholders have acquired software or hardware without IS' approval and then later asked IS to provide support to the equipment. We will work with IS to find a dollar amount that would minimize risk and complication to the City's technology systems.

**Recommendation: Develop an approved list for hazardous materials.**

Management Response: We agree that this restriction needs to be reworded in conjunction with Environmental Affairs. Environmental Affairs is currently working on a web site that will solve some of these issues and questions.

**Recommendation: Expand the use of the Internet procedures to determine reputable vendors with secure sites and provide appropriate training for cardholders.**

Management Response: We agree with the recommendation. We already use the Internet for the purchase of office supplies from Office Depot. Purchasing staff uses the Internet for sourcing of some goods and is increasing the use of the Internet every month. Additional use of the Purchasing Card will still be taken slowly in light of some recent problems on the Internet. When Purchasing finds web sites that are desired by City staff, we will request a review of the security of that site by IS. We are also exploring future partnerships with banks, which may provide the City with more secure site ordering abilities.

**Recommendation: Establish procedures for procuring food catering services and rental of vehicles.**

Management Response: We agree with this recommendation. Purchasing staff will meet with Risk Management to evaluate the risks involved in catering, and vehicle use purchases. We will then follow their direction to revise the Purchasing Card Procedures.

**Recommendation:** Clarify the intent of the Purchasing Code and require the development and periodic updating of department procedures.

**Management Response:** We agree with this recommendation. Purchasing staff will examine both the Purchasing Card Guidelines and the Procurement Code to ensure the intent of both is clear. The intent of the Procurement Code and the Purchasing Card Program was to provide the authority and the skills for staff to contractually obligate the City for goods and services. The Purchasing Director has the authority and responsibility to ensure that the City's best interests are always foremost when goods and services are procured. The Purchasing Code allows some departments to procure certain services with little or no oversight by the Purchasing Division, City Attorney's Office, Risk Management, Capital Project Management, etc.

One of the best ways to ensure the City's interests are met is through an open, competitive process. The Procurement Code recognizes that requiring large amounts of staff time for small dollar purchases does not represent the City's best interests. Consequently thresholds were developed, less than \$2,000, \$2,000 to \$10,000, \$10,000 to \$20,000, and over \$20,000. Purchasing has found that 85% of the total transaction are for goods and services less than \$2,000. Purchasing has also found that about 82% of the total dollars expended by the City are on goods and services over \$20,000. We believe that efforts spent on those large dollar transactions are the best use of the City's time to safeguard taxpayer's assets.

The Purchasing Card Program is one tool to speed up the purchasing operation. When the program was drafted, it was recognized that there were times when it would be a more efficient use of the City's asset to use a Purchasing Card for buying an item that might be stocked in the Warehouse. This is why supervisor oversight is such an important part of the program. Supervisors must make sure the cards are being used properly.

Staff disagrees with the audit statement "The intent of the Procurement Code is to ensure the City is getting the best price based on the quantity and quality of the goods and services needed. This intent does not appear to be served by a process that allows numerous purchases of like items from the same vendor on a consistent basis as long as daily limits are observed." The intent of the Procurement Code is to ensure the City's assets are protected through a process of procuring the best value for the City. There are many instances where the best value may be determined by urgent need and logistics rather than price or even quality. Purchasing staff continually examines the purchases made with the Purchasing Card. If a group of items would be better served with a contract, we contact the using department to make arrangements for them to draft specifications for a Request for Proposal or an Invitation for Bid. Purchasing is not an exact science so there are and will continue to be times when these thresholds are exceeded and the intent of the Procurement Code is moved from price to time.

**Recommendation:** Develop and require supervisors to attend a training program outlining supervisor responsibility and require all cardholders to receive basic training.

**Management Response:** We agree with this recommendation. Once the current Purchasing Card guide is revised it will be given to all cardholders with updated training. An added supervisor's orientation will also be developed and made an ongoing component of the program.

**Recommendation:** Require supervisors to follow up and document steps to reinforce compliance.

Management Response: We agree with this recommendation. We believe that supervisors have, for the most part, been very diligent in their enforcement of the Purchasing Card requirements. There have been some momentary lapses by the supervisors and Purchasing will work with the supervisors to help ensure corrections are made.

**Recommendation:** Implement a procedure to periodically verify that purchasing cards issued to terminated employees are canceled.

Management Response: We agree with this recommendation and are working with Human Resources to ensure that either the Purchasing Card is collected before an employee is terminated or Purchasing is immediately notified upon an employee's termination.

**Conclusion:**

The current Purchasing Program has been in existence for three years. When the City adopted a Purchasing Card Program we knew the program would have to be changed as the City gained more experience in decentralized, small purchases. We now have the knowledge to make meaningful changes to the program and not compromise the safety and soundness of its requirements. We will emphasize the needs for each department to address their unique issues with special policies and guidelines.